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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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B-207569

AUGUST 16, 1983

RELEASED

The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives



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Dear Mr. Chairman:

Subject: Summary of Review of the Army's Division
Level Data Entry Device Acquisition (GAO/
IMTEC-83-1)

As requested in your September 30, 1981, letter, we have reviewed the Army's Division Level Data Entry Device (DLDED) acquisition program. (See encl. I.) We briefed your staff on the results of our review on January 12 and April 2, 1982, and held a closeout briefing on June 3, 1983. This is a written summary of our response to the issues you raised and a report on the status of the current acquisition.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review were to determine

- the scope and viability of the \$120-million DLDED program,
- whether competitive sources were available that could fulfill the Army's requirements,
- whether a sole source procurement of IBM equipment was justified, and
- whether the contractual agreements for DLDED were proper and valid and in the best interests of the Government.

We conducted our review at the General Services Administration; the Small Business Administration (SBA) headquarters and district offices in Washington, D.C.; the Army Computer Systems Command at Fort Belvoir, Virginia; the Office of the Deputy Chief of Staff for Operations and Plans, Department of the Army at the Pentagon; and the Defense Contract Audit Agency in Silver Spring, Maryland.

We reviewed contract, project, and SBA program files and conducted interviews to obtain information on the DLDED program. We

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also reviewed applicable SBA rules and regulations and coordinated our work with the Inspector General of SBA. We did not review the files or financial records of Systems and Applied Sciences Corporation (SASC) nor did we independently assess SASC's corporate or technical competence. Our review was performed in accordance with generally accepted government audit standards.

SCOPE AND VIABILITY OF THE DLDED PROGRAM

In 1977 the Army used commercial, off-the-shelf equipment to test the efficiency of the automated entry of their administrative and logistical data from the unit level into division level systems. The test showed such significant improvement over manual methods that the Army developed a program to acquire a system of small computers to support these data entry needs.

In 1978 the Congress directed that the Army delay implementation of the effort pending evidence that the Marine Corps Source Data Automation program was workable and cost effective. The Congress wanted the Marine program to serve as a test/model for acquiring general purpose ADP equipment for small unit organizations. The following year, however, the Army issued letters of inquiry to solicit industry's participation, and in December 1979 SBA set aside the DLDED program for SASC, a software development firm operating under the Section 8(a) program for the socially and economically disadvantaged.

When the Marine Corps tests were completed, the Army reviewed the results and decided that the commercial equipment, repackaged with "ruggedized containers," worked in a battlefield environment. The Marine Corps awarded its contract to International Business Machines, Inc. (IBM) in March 1980. Under the terms of the contract, the IBM equipment cost about \$30,000 per unit. The following month, the Army obtained permission from the Procurement Directorate, United States Army Communications Research and Development Command, for a sole source procurement of 688 units of DLDED equipment, also from IBM. However, the Army made numerous additions to the Marine Corps requirements; for example, full military specifications, training, in-house maintenance with integrated logistics support, more extensive communications requirements, greater equipment capabilities, and more equipment items. When the 8(a) firm negotiated a subcontract with IBM for the hardware, the price was about \$115,000 per unit, an increase of \$85,000 over the Marine Corps cost. We found no documentation to support the Army's operational need for system requirements more extensive than those of the Marine Corps.

Were competitive sources available that could fulfill the Army's requirements?

The Army successfully completed a test of the system with off-the-shelf, SYCOR and Magnavox equipment. When preparing to compete the procurement, the Army received 19 responses from manufacturers to a letter of inquiry. Our search of computer industry literature

after the contract award showed several computer systems and numerous components that could meet the Army's basic needs.

Was a sole source procurement of IBM equipment justified?

The Army obtained a delegation of procurement authority from the General Services Administration for a sole source acquisition. However, our review of the supporting documents showed that the Army did not provide the level of justification for such a procurement required under DOD's internal implementation of Federal Procurement Regulation 1-4.1104(k).

Were the contractual agreements for DLDED proper and valid and in the best interests of the Government?

Our examination of the letter contracts between the Army and SBA/SASC and between SASC and IBM showed that they were valid in that they appeared to meet the requirements of the Federal Procurement Regulations. However, we do not believe this contract was in the best interests of the Government because

- SASC had no previous experience with hardware manufacturing and systems integration and
- the contract was, in effect, a brokering arrangement that would result in higher costs to the Government. This matter was discussed in testimony before your Subcommittee on April 29, 1981.

CONTRACT TERMINATED

One month after we began our review of the DLDED acquisition, Army officials issued a stop work order on a major portion of the contract. The Army then terminated the contract with SASC in March 1982.

CURRENT STATUS

After the contract was terminated, the Army revised the DLDED program, renamed it the Tactical Army Combat Service Support Computer System (TACCS), and is conducting a competitive procurement. Army officials expect to award a new contract by the end of August 1983 to purchase between 2,900 and 10,000 minicomputer systems for the new program. The TACCS procurement will have a much higher cost than DLDED because of the large increase in the number of systems purchased, and for this reason, we believe that the acquisition should be carefully managed.

We will continue to monitor the Army's current procurement for TACCS and will keep your staff informed on this matter.

Sincerely yours,

Walter L. Anderson

for
Warren G. Reed
Director, Information Management
and Technology Division

Enclosure

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 2157 Rayburn House Office Building
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 September 30, 1981

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The Honorable Milton J. Socolar
 Acting Comptroller General
 General Accounting Office
 441 G Street, N.W.
 Washington, D.C. 20548

Dear Milt:

During our hearings on the Section 8(a) program of the Small Business Administration, it was discovered that the Army was planning to sole-source several hundred million dollars of computer equipment through an 8(a) broker arrangement. It has come to my attention that the Army not only plans to continue this brokering arrangement, but plans to even increase its sole-source acquisitions through the 8(a) firm.

This procurement is particularly disturbing since it adds a considerable cost to the government with little added value, freezes out other more competitive firms and locks the Army into obsolete technology. Further, broker contracts are illegal according to SBA's own regulations and violates the commitments that the current SBA Administrator made to this committee during these hearings.

I therefore request that GAO undertake an immediate investigation into the contractual arrangements between the Army; the 8(a) contractor, Systems and Applied Sciences Corporation; and the prime subcontractor, IBM. The review should also include: (1) the scope and viability of the Division Level Data Entry Device (DLDED) acquisition program, (2) what other competitive sources are available that could fulfill the Army's requirements, (3) the justification for a sole-source procurement of IBM equipment, and (4) whether the contractual agreements established are proper and valid, including whether the business relationship between the 8(a) contractor and IBM is in the best interests of the government.

Since GAO has done extensive work in this area, I would appreciate a report on the results of this review by January 15, 1982.

With best wishes, I am

Sincerely,


 JACK BROOKS
 Chairman